

Message Text

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ORIGIN AF-10

INFO OCT-01 NEA-11 ISO-00 L-03 AID-05 CIAE-00 COME-00
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INFO AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY DOHA

C O N F I D E N T I A L STATE 125848

E.O. 11652: GDS

TAGS: ECON, EAID, SU

SUBJECT: MEETING WITH IMF ON SUDAN'S FINANCIAL SITUATION

1. ON MAY 10, DEPUTY ASSISTANT SECRETARY HARROP,
ACCOMPANIED BY DEPTOFFS AND A REPRESENTATIVE OF TREASURY,
MET IN THE OFFICE OF THE U.S. REPRESENTATIVE TO THE IMF
WITH SENIOR IMF STAFF INVOLVED IN NEGOTIATING IMF ASSIST-
ANCE TO SUDAN. DISCUSSION WAS WIDE RANGING.

2. THE EFFORTS OF THE IMF OVER THE LAST THREE YEARS TO
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NEGOTIATE A STANDBY AGREEMENT WITH SUDAN WERE REVIEWED.
A BENCHMARK IN THIS PROCESS WAS THE MEETING WITH NIMEIRI
IN LATE NOVEMBER 1977. AT THAT TIME NIMEIRI AGREED WITH
IMF THAT TWO BASIC NEEDS OF SUDAN WERE 1) TO ESTABLISH
REALISTIC EXCHANGE RATE, AND 2) TO IMPROVE INCENTIVES
FOR AGRICULTURAL PRODUCTION TO BETTER UTILIZE SUDAN'S
COMPARATIVE ADVANTAGE. TENTATIVE AGREEMENT WAS REACHED,

AND THE SUDANESE SIGNED A LETTER OF INTENT IN JANUARY 1978. HOWEVER, CERTAIN MEASURES THAT WERE TO BE TAKEN BEFORE THE STANDBY WAS PRESENTED TO THE IMF EXECUTIVE BOARD WERE NOT TAKEN, AND IT BECAME APPARENT THAT THE SUDANESE FELT THEY COULD NOT UNDERTAKE OTHER MEASURES OUTLINED IN THE LETTER OF INTENT. IN APRIL AN IMF TEAM VISITED SUDAN TO UPDATE THE REPORT AND DEPARTED WITH THE UNDERSTANDING

THAT IF IT WAS NOT ACCEPTED BY JULY 1 (BEGINNING OF THE SUDANESE FISCAL YEAR), IT WOULD HAVE TO BE RENEGOTIATED.

3. AS TO THE CAUSES OF THE CURRENT ECONOMIC SITUATION, STAFF ATTRIBUTED IT TO FINANCIAL MISMANAGEMENT CITING THREE EXAMPLES: 1) NO EXPENDITURE CONTROL E.G. EXTRA-BUDGETARY APPROPRIATIONS, 2) NO DEBT CONTROL OR EVEN KNOWLEDGE OF THE MATURITY STRUCTURE OF INDEBTEDNESS, AND 3) A DEVELOPMENT PROGRAM FOR WHICH COMPLETE FUNDING HAD NOT BEEN SECURED. IMF ESTIMATES THAT SUDAN'S CURRENT ARREARAGES -- MOSTLY TO ARAB LENDERS -- TOTAL OVER \$800 MILLION: \$250 MILLION IN COMMERCIAL DEBT AND \$550 IN PUBLIC DEBT.

4. ON THE EXCHANGE RATE ADJUSTMENT ISSUE, THE IMF OFFICIALS WOULD NOT DIVULGE THEIR VIEWS AS TO APPROPRIATE CENTRAL RATE. THEY DID SAY THAT THE IMF WOULD PREFER TO SEE SOME CONSOLIDATION IN THE PRESENT SYSTEM OF CONFIDENTIAL

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MULTIPLE RATES WITH A LOWERING OF THE CENTRAL RATE FROM ITS CURRENT LEVEL OF ONE SUDANESE POUND (LS) \$2.50. IMF WOULD PREFER THAT ULTIMATELY THERE WOULD BE ONLY ONE UNIFIED RATE. ALTHOUGH REFORM OF THE SUDAN'S FISCAL OPERATIONS WILL TAKE SEVERAL YEARS, THE IMF BELIEVES THAT THE PRICE ELASTICITIES OF SUPPLY IN THE SUDAN ARE VERY HIGH. IF ONE GIVES EXPORT PRODUCERS ADEQUATE INCENTIVES, THERE SHOULD BE A LARGE IMPROVEMENT IN EXPORT YIELDS EVEN IN THE SHORT RUN. THIS COULD BE ACHIEVED, FOR EXAMPLE, BY SWITCHING FERTILIZER, WHICH PRESENTLY GOES TO RELATIVELY INEFFICIENT CROPS LIKE WHEAT, TO COTTON IF COTTON PRODUCTION WAS MADE MORE PROFITABLE.

5. QUERIED ABOUT WHAT TYPE OF ASSISTANCE THE IMF MIGHT PROVIDE SUDAN, STAFF IS CONSIDERING SDR 100 MILLION IN STANDBY CREDIT OVER AN 18 MONTH STANDBY PROGRAM. THEY ARE NOT INCLINED TO PROPOSE AN EXTENDED FUND FACILITY FOR SUDAN IN VIEW OF DIFFICULTIES OF LONGER TERM REFORMS THAT SUCH AN ARRANGEMENT WOULD REQUIRE. A SERIES OF STANDBY ARRANGEMENTS WHICH WOULD GIVE AN OPPORTUNITY TO EVALUATE NECESSARY REFORMS ON A YEARLY BASIS MIGHT BE MORE FEASIBLE. THE IMF TRUST FUND MIGHT PROVIDE AS

MUCH AS \$30-35 MILLION TO SUDAN IF ACCEPTABLE STANDBY PACKAGE IS NEGOTIATED WITHIN THE NEXT FEW WEEKS.

6. STAFF'S PROGNOSIS OF SUDAN'S IMMEDIATE FUTURE WAS GRIM. SUDANGOV APPEARS TO BE HOPING THAT THE SAUDIS OR OTHER ARABS WILL BAIL IT OUT WITHOUT THE IMF AGREEMENT, AND AT A MINIMUM, SUDANGOV WILL ATTEMPT TO HOLD OUT AT LEAST UNTIL AFTER THE OAU SUMMIT IN JULY. THE BUDGET

FOR THE NEW FISCAL YEAR TO BE PRESENTED IN JULY IS SUPPOSED TO REFLECT HEIGHTENED FISCAL RESTRAINT. SUCH FISCAL RESTRAINT WOULD ENTAIL CROSS-THE-BOARD CUTBACKS, BUT WOULD NOT PRECLUDE THE PROMISED PAY RAISE TO GOVERNMENT EMPLOYEES (TOTALLING SOME LS 45 MILLION) WHICH
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IS SCHEDULED FOR JULY. THIS RAISE WOULD HAVE TO BE TAKEN FROM OTHER GOVERNMENT EXPENDITURES. SHOULD THE SUDANESE ACCEPT THE IMF PACKAGE, STAFF BELIEVES THAT THEIR ARAB CREDITORS MAY RE-SCHEDULE THEIR DEBTS AND THEN PROVIDE LIMITED DIRECT BALANCE OF PAYMENT SUPPORT.

7. ALL OF THE ABOVE INFORMATION IS, OF COURSE, FOR YOUR BACKGROUND USE AND YOU SHOULD NOT INDICATE TO SUDANGOV ANY CONTACT BETWEEN IMF STAFF AND USG ON THIS ISSUE.

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